

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

IN THE MATTER OF)	
)	
STANDARD LIFE AND)	CONSENT ORDER LEVYING A FINE
ACCIDENT INSURANCE)	
COMPANY,)	NO. D02-44
)	
An Authorized Insurer.)	

FINDINGS OF FACT

1. Standard Life and Accident Insurance Company ("Standard" hereafter) is a health insurer licensed to do business in the State of Washington. Among the types of coverage offered by Standard to Washington residents are medicare supplement plans or certificates, including medicare supplement standardized benefit plan types "B", "C", "D", "E", "F", and "G".
2. In March, 2001, the Office of the Insurance Commissioner ("OIC") learned that Standard was requiring applicants for medicare supplement standardized plans issued by Standard to fill out medical questionnaires and that Standard's underwriting policy was to only guarantee issue of the replacement coverage without medical underwriting if the plan to be replaced provided greater or more comprehensive benefits than the Standard medicare supplement standardized plan for which application was being made.
3. Following several conversations with Standard's Director of Compliance, Ron Mason, by letter dated October 4, 2001, OIC's Division of Consumer Affairs, referring to RCW 48.66.045(1), advised Standard in part as follows:

"This law requires an insurer to 'issue coverage under its standardized benefit plans B,C,D,E,F, and G without evidence of insurabilityif the medicare supplement policy replaces another medicare supplement standardized benefit plan policy or certificate B,C,D,E,F, or G, or other more comprehensive coverage than the replacing policy.' This literally means that any plan in this group can be replaced with any other plan in the group. The law does not allow insurers to only replace one plan with another based on like or lesser coverage.
4. In its letter of October 4, 2001, OIC also directed Standard to provide OIC with the names of all applicants for replacement plans B through G who had be turned down by Standard and the dates of the coverage denials.

5. In response, by letter dated October 30, 2001, Standard did not provide the requested information regarding applicants for replacement plans B through G who had been turned down by Standard, but instead represented as follows:

In addition, SLAICO has reviewed the records of all applications received to determine if any Washington resident had been adversely affected by our prior interpretation of the legislation. After a thorough review SLAICO has determined that no Washington residents were adversely affected by our previous position.

6. By follow up letter dated December 5, 2001, Standard was asked to confirm its representation that no Washington residents had been adversely affected by its underwriting policy by providing to OIC a copy of the following documents: (1) Each application to Standard from a Washington resident for Medicare Supplemental Plans B through G since January 1, 1996, the effective date of RCW 48.66.045; and (2) As to each such application that was rejected by Standard or as to which Standard offered a supplement plan with less comprehensive coverage than the plan for which application was made, a copy of Standard's correspondence so advising the insured or insured's agent.

7. On December 13, 2001, OIC was advised by Standard that Standard had done a computerized search to determine whether or not any Washington residents had applied for more comprehensive medicare supplement replacement coverage and had been turned down and that the answer was "no".

8. By telephone call and follow up letter dated December 19, 2001, Standard for the first time notified OIC of the fact that there were 43 files in which applicants for medicare supplement replacement coverage had been turned down by Standard for underwriting reasons. Copies of these files were provided to OIC in January, 2002.

9. The application form used by Standard in the files produced does not ask the applicant to identify the level of the medicare supplement plan being replaced, and all of the files produced contain health questionnaires and were medically underwritten by Standard.

10. In the files produced by Standard, two applicants listed the designation of the plan to be replaced even though the question was not asked. Both were denied for medical reasons even though one of the applicants was trading to the same plan level and the other applicant was seeking to trade to replace a Plan F with a less comprehensive Plan D. Of the remaining files produced, 24 applications were rejected for medical reasons even though the applicants were seeking coverage under standardized benefit plans B through G to replace either more comprehensive coverage than the replacing policy or other B through G plans.

11. Standard's responses to OIC's inquiry in this matter failing to provide the documents and information requested were inadequate and Standard's claims that it had verified that no Washington residents had been adversely affected by Standard's previous position were both false and inadequate.

12. By medically underwriting all applications for medicare supplemental replacement coverage, Standard violated its own underwriting standards, harmed consumers by rejecting applications by applicants who were entitled to guaranteed issuance of coverage without evidence of insurability, and gained a competitive advantage over other health carriers offering medicare supplemental coverage in Washington.

CONCLUSIONS OF LAW

1. Standard's underwriting policy, that it would only guarantee issue of the replacement coverage without medical underwriting if the plan to be replaced provided greater or more comprehensive benefits than the Standard medicare supplement standardized plan for which application was being made, violated RCW 48.66.045(1)
2. Standard's actual practice of medically underwriting all applications for medicare supplement replacement coverage violated Standard's own underwriting policy and RCW 48.66.065(1).
3. Standard's responses to OIC's inquiries in this matter in which Standard failed to provide the information and documents requested and incorrectly asserted that Standard had verified that no Washington residents had been adversely affected by Standard's conduct were inadequate responses and violated WAC 284-30-360(2).

CONSENT TO ORDER

Standard Life and Accident Insurance Company wishes to resolve this matter without further administrative or judicial proceedings and hereby admits to the foregoing Findings of Fact and Conclusions of Law. Standard Life and Accident Insurance Company hereby consents to the entry of this order and acknowledges its duty to comply fully with the applicable laws of the State of Washington.

By agreement of the parties, the OIC will impose a fine of \$53,000 upon the Company, and suspend \$26,500 of that fine on condition that:

1. Standard Life and Accident Insurance Company pay \$26,500 of the fine within thirty days of the entry of this Order.
2. Standard Life and Accident Insurance Company conduct four semiannual audits of its underwriting practices regarding Washington applicants for medicare supplement replacement policies to determine compliance with the terms of Order, with the audit results to be reported to OIC's Division of Company Supervision, such results to include the number of such applications received, the level and designation of the coverage applied for and the coverage being replaced for each application, and the action taken by Standard in accepting or rejecting the application.

3. Standard Life and Accident Insurance Company require those persons responsible for accepting or rejecting applications for standardized medicare supplement replacement policies by individuals domiciled in Washington State to be certain that the decision to accept or reject such policies is made in compliance with RCW 48.66.045.
4. Standard Life and Accident Insurance Company add to its application form used in Washington for persons applying for standardized medicare replacement policies a question asking the applicant to specifically designate and identify the letter designation of any standardized medicare policy or plan being replaced.
5. Standard Life and Accident Insurance Company commit no further violations of the statutes and regulations that are the subject of this Consent Order for a period of two years from the date on which this Consent Order is entered. Standard Life and Accident Insurance Company shall not be subject to the suspended portion of the fine should it commit isolated, de minimis violations of the laws and regulations which are the subject of this Order, as determined by the OIC.

Pursuant to RCW 48.05.185, failure to pay the fine timely or to fulfill the stated conditions shall constitute grounds for the revocation of the insurer's certificate of authority, and for the recovery of the full fine, including the suspended portion, in a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

EXECUTED this 21st day of April, 2002 by:

STANDARD LIFE AND ACCIDENT INSURANCE COMPANY

Signed Name: _____

Printed Name: _____

Printed Title: _____

ORDER:

Pursuant to RCW 48.05.185, the Insurance Commissioner hereby imposes a fine of Fifty Three Thousand Dollars (\$53,000) upon Standard Life and Accident Insurance Company, and suspends Twenty Six Thousand Five Hundred Dollars (\$26,500) of that fine under the conditions set forth in the Consent to Order section of this Consent Order. Twenty Six Thousand Five Hundred Dollars (\$26,500) of the fine must be paid in full within thirty days of the entry of this order in Olympia, Washington. Failure to pay the fine timely or to fulfill the stated conditions shall constitute grounds for the revocation of the insurer's certificate of authority, and for the recovery of the full fine, including the suspended portion, in a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

ENTERED AT OLYMPIA, WASHINGTON on this 26th day of April, 2002.

Mike Kreidler
Insurance Commissioner

By: _____
Charles D. Brown
Staff Attorney, Legal Affairs